

State Board of Equalization
OPERATIONS MEMO
Confidential

No : 1150
Date : July 20, 2007

SUBJECT: Budgeted Hours for Audit Assignments

I. PURPOSE

This Operations Memo provides guidelines when budgeting hours for Sales and Use Tax Department audit assignments. Establishing budgeted hours is expected to increase first-line supervisor involvement with each audit and improve communication with the audit staff, resulting in an increase in the quality of the audits while reducing the number of hours needed to complete each audit assignment.

II. HEADQUARTERS RESPONSIBILITY

The Field Support and Evaluation Unit will provide the “Average Hours per Audit by Business Code” report to each district annually. The report is based on a rolling average of the most recent three fiscal years. The average hours per audit are listed by business code, business type, and cell group and are broken down into several categories: total average, deficit average, credit average, no-change average, and field waiver average. Further, the report lists the average in-state, out-of-state, and state-wide hours per audit for the various categories. The total number of assignments is displayed to provide a basis for evaluating the validity of the averages provided. The averages do not include the audit assignments (accounts) designated as Priority 1 and 2 for audit selection. In some cases, when there are no audits performed for a business code, cell group, or district, average hours may not be available.

The Average Hours per Audit by Business Code report is located in the Microsoft Outlook Public Folders: \\Public Folders\\All Public Folders\\CBOE\\SUTD\\Audit Data. The file name will be [District] AVG HRs NET P1 P2 [Years].xls. If audit supervisors do not have access to the file in Outlook, the District Principal Auditor must copy the electronic file and provide it to the audit supervisors. The file may then be stored on the supervisor’s personal drive.

The Field Support and Evaluation Unit will also prepare the “Analysis of Audit Productivity” report quarterly. The report will provide a comparison of the previous average hours to the current average hours by district and statewide. The Analysis of Audit Productivity report will be located in the Management Reports in the Audit Folder under Goals.

III. DISTRICT OFFICE RESPONSIBILITY

Audit supervisors will assign the initial budgeted hours for all new audit assignments. Absent any other information (i.e., BOE-1164, BOE-1032, other lead, etc.), accounts with no prior audit

results should use the average no-change hours as illustrated in the Average Hours per Audit by Business Code report as the budgeted hours. The initial budgeted hours for in-state audit assignments will be based on the average in-state no-change hours and out-of-state audit assignments will be based on the average out-of-state no-change hours.

Initial budgeted hours for audit assignments of accounts that have prior audits will be established by utilizing prior audit hours and results, in combination with historical hours per audit by industry and cell grouping, auditor experience, and other relevant factors as determined by the audit supervisor.

The supervisor has the flexibility to assign initial budgeted hours that differ from the average in-state and out-of-state no-change hours. The reports provided by the Field Support and Evaluation Unit are to be used as general guidelines to increase efficiency by enhancing communication between supervisors and audit staff.

Budgeted hours for each audit assignment must be noted on the newly revised BOE-610 (Exhibit A), in the Budgeted Hours column. The updated auditor's timesheet program, including the revised BOE-610, is expected to be included in the next ZenWorks distribution. The supervisor will note the initial budgeted hours on the BOE-414-Z, *Assignment Contact History*.

A follow-up discussion with the audit supervisor will be held following the auditor's initial examination of the taxpayer's records to discuss the progress of the examination and budgeted hours. Circumstances that may warrant a change to budgeted hours include, but are not limited to:

1. Incorrect business code
2. Number of taxpayer locations
3. Volume of sales
4. Requirement of third party source verifications
5. Taxpayer delays in the audit process
6. Complexity of issues
7. Nature of records

The audit supervisor will make adjustments to the budgeted hours accordingly.

Later, if an auditor determines an increase in budgeted hours is required, the auditor must contact their supervisor before the auditor exceeds the current budgeted hours.

If the supervisor decides an adjustment is warranted, the supervisor will note the discussion with the auditor and the agreed upon adjusted hours on the BOE-414-Z. The auditor will update the budgeted hours on the BOE-610 and note the discussion with the supervisor and the agreed upon adjusted hours on the BOE-414-Z.

After the completion of each audit, supervisors and auditors should review the variance, if any, between budgeted and actual hours and discuss lessons learned, both positive and negative, so

that future audits can duplicate the same successes and avoid the same mistakes. The supervisor and auditor should discuss areas in the audit that may have been performed more efficiently.

If you have questions regarding these procedures, please contact the Audit Support Unit.

IV. OBSOLESCENCE

This Operations Memo will become obsolete when the information contained herein is incorporated into the Audit Manual.

Randie L. Henry
Deputy Director
Sales and Use Tax Department

Attachment:
Exhibit A - Form BOE-610, *Auditor's Monthly Report*

Distribution: 1-D

BOE-610 REV. 9 (01-07)
AUDITOR'S MONTHLY REPORT

STATE BOARD OF EQUALIZATION

BOE-610 REV. 9 (01-07)

From _____ to _____
PAYROLL PERIOD

[illegible]